

Message Text

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ACTION PM-05

INFO OCT-01 ARA-10 ISO-00 NSC-05 SP-02 SS-15 CIAE-00
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ACDA-12 MCE-00 /074 W
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R 172015Z MAY 78
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC 794
INFO USCINCSO J2 QUARRY HEIGHTS CZ

C O N F I D E N T I A L SECTION 1 OF 2 LA PAZ 3872

EO 11652: GDS
TAGS: MASS, BL
SUBJECT: FY 1978 FMS FIANCING - BOLIVIA

REF: (A) STATE 120316, (B) LA PAZ 2233, (C) STATE 37137

1. THE GOB HAS FORMALLY NOTIFIED US THAT IT IS INTERESTED IN ACCEPTING OUR FY 1978 FMS CREDIT OFFER OF \$14 MILLION. IT WOULD USE \$6 MILLION FOR EQUIPMENT FOR THE MILITARY-CIVILIAN HOSPITAL NOW COMPLETING CONSTRUCTION IN LA PAZ AND \$8 MILLION TO PURCHASE UTILITY HELICOPTERS AND SPARE PARTS FOR THE BOLIVIAN AIR FORCE (A COMPLETE LIST IS CONTAINED IN PARAGRAPH 6). IT HAS ALSO REQUESTED THAT WE PROVIDE INFORMATION CONCERNING THE MOST FAVORABLE INTEREST RATE AND LOAN PAYBACK PERIOD WHICH WE ARE PREPARED TO OFFER SO THAT A FINAL DECISION CAN BE MADE IN THIS MATTER.

2. I STRONGLY URGE THAT THE MAXIMUM STATUTORY PERIOD OF 12 YEARS AND LOWEST INTEREST RATE BE OFFERED ON THE CREDIT. IN MY OPINION, BOLIVIAN USE OF THE CREDIT FOR THESE NONLETHAL ITEMS (BOLIVIA DID NOT ACCEPT OUR FY 1977 CREDIT OFFER) WILL PLAY AN IMPORTANT ROLE THIS YEAR IN ACHIEVING US GOALS AND OBJECTIVES IN BOLIVIA. OFFERING THE INCENTIVE OF 12-YEAR TERMS FOR NONLETHAL EQUIPMENT WILL HELP SIGNIFICANTLY TO ORIENT THE BOLIVIAN MILITARY, AS IT
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LEAVES GOVERNMENT, TO A ROLE CONSISTENT WITH OUR OBJECTIVES REGARDING HUMAN RIGHTS, RETURN TO DEMOCRATIC GOVERNMENT, REDUCTION OF REGIONAL TENSIONS, AND FOCUS ON THE NATION BUILDING USES OF MILITARY EQUIPMENT. IT WILL ALSO PROMOTE US COMMERCIAL INTERESTS SINCE IT WILL ASSURE THAT US EQUIPMENT IS USED IN THE MILITARY HOSPITAL AND US HELICOPTERS AS OPPOSED TO FOREIGN HELICOPTERS ARE PURCHASED.

3. THE IMPORTANCE OF THIS FMS CREDIT IS RELATED TO THE KEY ROLE OF THE BOLIVIAN ARMED FORCES IN THE POLITICAL DIRECTION OF THE COUNTRY. IN JULY 1978, AFTER 12 YEARS OF MILITARY GOVERNMENT, NATIONAL ELECTIONS WILL BE HELD AND THE ARMED FORCES WILL WITHDRAW FROM CONTROL OF GOVERNMENT. THE USG IS SUPPORTING THIS RETURN TO ELECTED CIVILIAN GOVERNMENT (SEE REF C - AMBASSADOR'S GOALS AND OBJECTIVES). THE WINNER OF THE ELECTION WILL NEED A CONSIDERABLE PERIOD OF TIME, PROBABLY TWO TO THREE YEARS, TO ESTABLISH A STABLE CIVILIAN GOVERNMENT. THE MILITARY WILL PLAY THE CRUCIAL ROLE IN ENSURING THAT THE ELECTED GOVERNMENT SURVIVES AND PROSPERS.

4. WITH THE TERMINATION OF THE GRANT AID MATERIAL PROGRAM, FMS CREDITS HAVE BECOME ONE OF THE MOST IMPORTANT ASPECTS OF OUR SECURITY ASSISTANCE RELATIONSHIP WITH BOLIVIA AND A NECESSARY MEANS OF MAINTAINING OUR INFLUENCE AND CONTACT WITH THE MILITARY. AS US SECURITY ASSISTANCE TO BOLIVIA HAS DECLINED, OUR ABILITY TO INFLUENCE THEM TO SUPPORT POLICIES CONSISTENT WITH US GOALS AND OBJECTIVES HAS ALSO DECLINED. THIS FMS CREDIT IS OUR BEST CURRENT MEANS OF INDICATING THAT THE USG WISHES TO CONTINUE A CLOSE, COOPERATIVE RELATIONSHIP WITH THE BOLIVIAN ARMED FORCES DURING A TURNING POINT IN THE NATION'S HISTORY. MOREOVER, THE PLANNED USE OF THE CREDIT FOR CIVIC-ACTION ORIENTED EQUIPMENT CONTRIBUTES TO OUR POLICY OF URGING THE MILITARY TO CONCENTRATE THEIR EFFORTS IN THIS FIELD. THE HOSPITAL WILL BE USED FOR BOTH

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CIVILIAN AND MILITARY PERSONNEL. MOST OF THE SPARE PARTS AND THE HELICOPTERS WILL BE USED FOR ECONOMICALLY JUSTIFIABLE PURPOSES. THE HELICOPTERS WILL ALSO BE AVAILABLE FOR DISASTER RELIEF, SUCH AS IN FLOODS, WHICH OCCUR ANNUALLY IN THE EASTERN PART OF THE COUNTRY. THESE CIVIC-ACTION MISSIONS WILL HELP THE MILITARY MAINTAIN A SENSE OF PRIDE IN THEIR NATION BUILDING ROLE AFTER THEIR WITHDRAWAL FROM GOVERNMENT. AS THIS EMBASSY HAS REPORTED, SOME BOLIVIAN MILITARY LEASERS ARE CONSIDERING THE NEED TO PURCHASE ARMS HARDWARE RATHER THAN CIVIC-ACTION-ORIENTED EQUIPMENT. THIS CREDIT GIVES US AN IMPORTANT OPPORTUNITY TO INFLUENCE THE DECISION IN FAVOR OF EQUIPMENT WITH PEACEFUL USES. THE PSYCHOLOGICAL VALUE OF USG SUPPORT FOR THIS MENTALITY WITHIN THE BOLIVIAN MILITARY CANNOT BE OVERESTIMATED. THEY LOOK TO US FOR LEADERSHIP AND GUIDANCE. FAILURE OF THE GOB TO ACCEPT THE FMS CREDIT WILL SIGNIFICANTLY REDUCE OUR SECURITY ASSISTANCE RELATIONSHIP AND HENCE OUR ABILITY TO POSITIVELY INFLUENCE THE BOLIVIAN ARMED FORCES AT THIS IMPORTANT JUNCTURE.

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5. IN MY JUDGMENT THE TERMS OF THE FMS CREDIT WILL BE CRUCIAL TO THE GOB DECISION ON WHETHER OR NOT TO ACCEPT THE CREDIT. BOLIVIA (AND THE NEWLY ELECTED GOVERNMENT) WILL FACE SERIOUS ECONOMIC PROBLEMS NEAR THE END OF CALENDAR YEAR 1978 AND IN 1979 AND THE GOVERNMENT IS MAKING A STRONG EFFORT TO HOLD DOWN GOVERNMENT EXPENDITURES. GOB POLICY IS TO ENCOURAGE DEVELOPMENT PROJECTS ON A SOUND FINANCIAL BASIS. THE MILITARY-CIVILIAN HOSPITAL WILL NEED THE 12 YEAR PAYBACK PERIOD TO MEET GOB ECONOMIC CRITERIA. HOSPITAL EQUIPMENT SUPPLIERS FROM OTHER COUNTRIES HAVE OFFERED RELATIVELY LONG-TERM FINANCING, BUT THE MILITARY WOULD PREFER US EQUIPMENT. THERE IS ALSO COMPETITION FROM EUROPEAN HELICOPTER SUPPLIERS, INCLUDING FAVORABLE CREDIT TERMS, BUT AGAIN THE BOLIVIANS PREFER THE US EQUIPMENT AND THE TRAINING WE CAN OFFER. I AM THEREFORE CONFIDENT THAT THE GOB WILL ACCEPT THE CREDITS IF WE OFFER TO EXTEND THE LOAN AT THE MAXIMUM PAYBACK PERIOD. ACCORDINGLY, I STRONGLY RECOMMEND THAT THE DEPARTMENT FAVORABLY CONSIDER THE BOLIVIAN REQUEST AND AUTHORIZE ME TO NOTIFY THE GOB THAT WE ARE PREPARED TO OFFER THE MOST FAVORABLE TERMS AUTHORIZED BY LAW (INTEREST RATE ESTABLISHED AT COST OF MONEY TO USG; PAYBACK PERIOD OF 12 YEARS). PROMPT RESPONSE WILL FACILITATE THE GOB DECISION AND SUBSEQUENT PREPARATION AND SIGNING OF FORMAL LOAN AGREEMENTS WELL IN ADVANCE OF END OF FY 1978. IN OFFERING 12-YEAR TERMS FOR THE PROPOSED ITEMS, WE WOULD MAKE CLEAR THAT THIS MATURITY

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WOULD NOT BE CONSIDERED IN THE FUTURE FOR FMS PURCHASE OF ANY LETHAL ITEMS.

6. FOLLOWING IS A LIST OF EQUIPMENT BEING REQUESTED UNDER THE

PROPOSED CREDIT.

A. HOSPITAL EQUIPMENT

OPERATING TABLES AND OTHER OPERATING ROOM EQUIPMENT

X-RAY MACHINES

LAB EQUIPMENT

BEDS AND CHAIRS

DENTAL CHARIS AND OTHER DENTAL EQUIPMENT

OTHER HOSPITAL SUPPLIES AND EQUIPMENT

B. AIR FORCE

6 UTILITY HELICOPTERS

10 ENGINES FOR T-33 TRAINERS

3 UTILITY HELICOPTER ENGINES

10 ENGINES FOR C-47 AIRCRAFT

3 CONVAIR 580 ENGINES

10 COMBUSTION CHAMBERS FOR T-33 TRAINERS.

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